

# Economic Outlook

Presented to the  
Lacey Chamber of Commerce – ROXY Business Connector  
Economic Development Roundtable

Bret Bertolin  
Senior Economist

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Olympia, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- The state's economic outlook has weakened since our June forecast
  - Downward revisions to historical data means we are starting from a lower point
  - The economic recovery has entered a "soft-patch" and the national outlook is now considerably weaker
- Economic activity is "muddling along" and the recovery is expected to be painfully slow
  - Weak confidence
  - Weak housing, commercial construction
  - Slow job growth
  - Improving, but still tight credit for small business
- Double-dip unlikely, but possibility higher
- Increased uncertainty



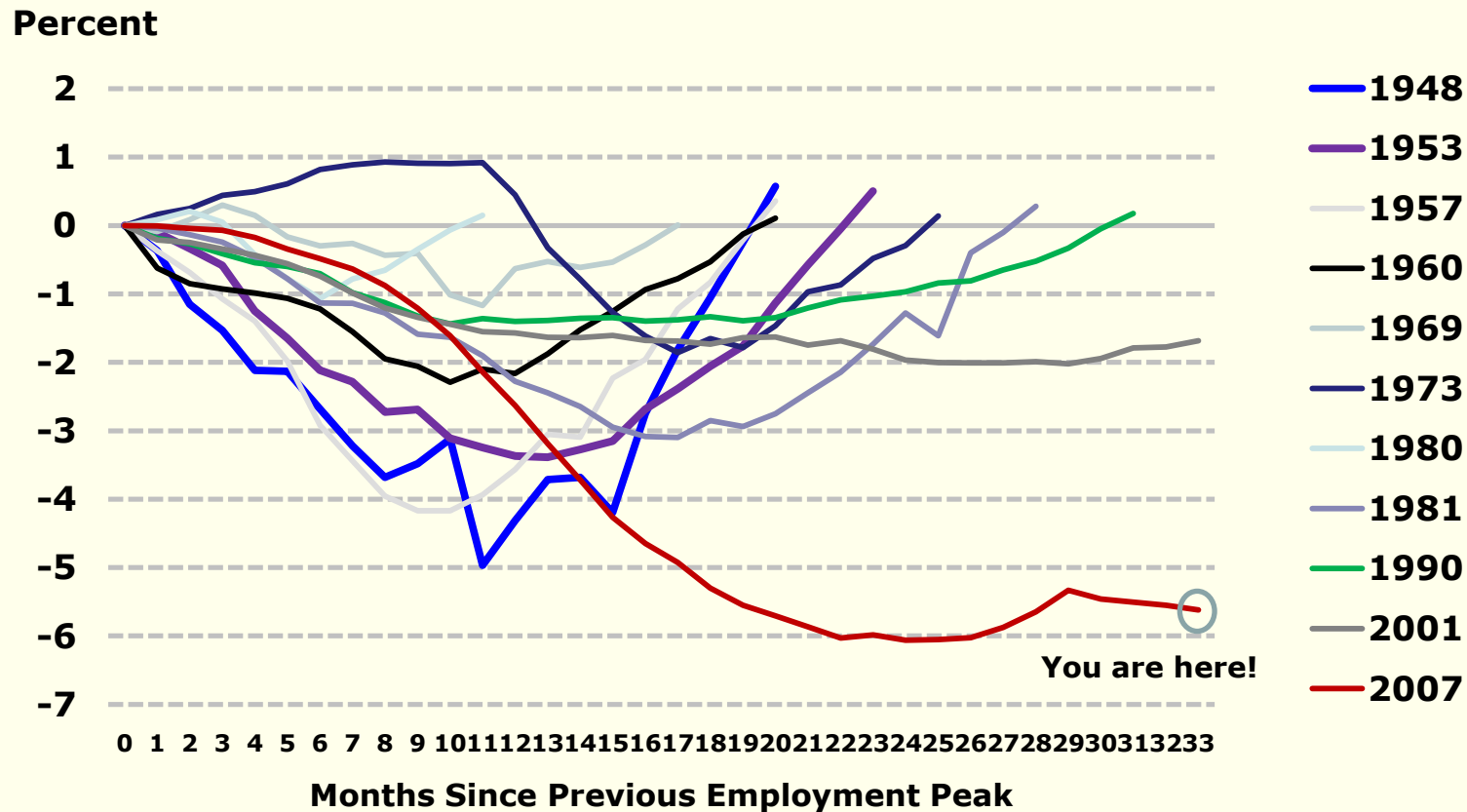
# This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
<b>Average</b>	<b>1.8</b>	<b>2.6</b>	<b>10</b>
<b>2007-09</b>	<b>4.1</b>	<b>6.1</b>	<b>18</b>

Source: NBER, ERFC



# Employment compared to business cycle peak



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Source: BLS; actual data through September 2010

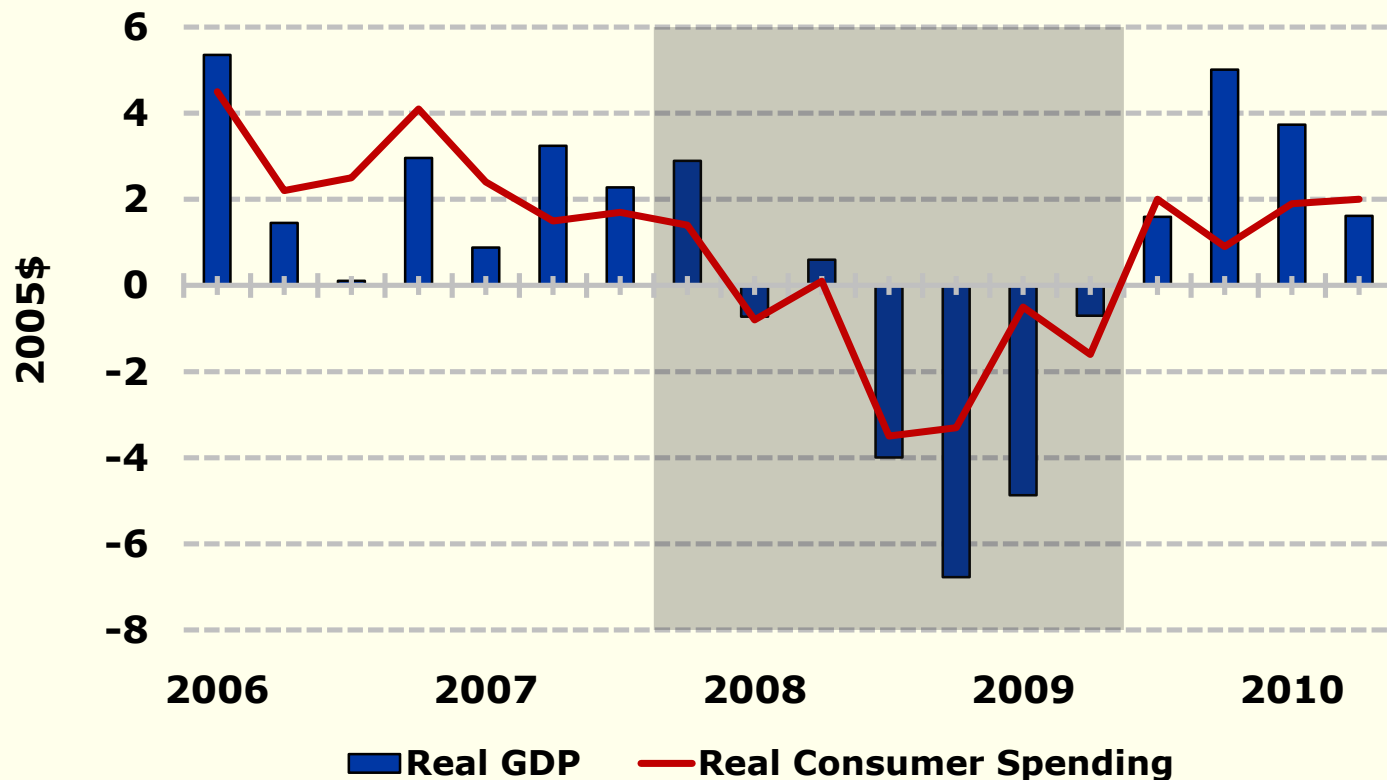
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# GDP growth has moderated, and is now well below trend

## Percent growth, SAAR



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Source: BEA, data through 2010 Q2

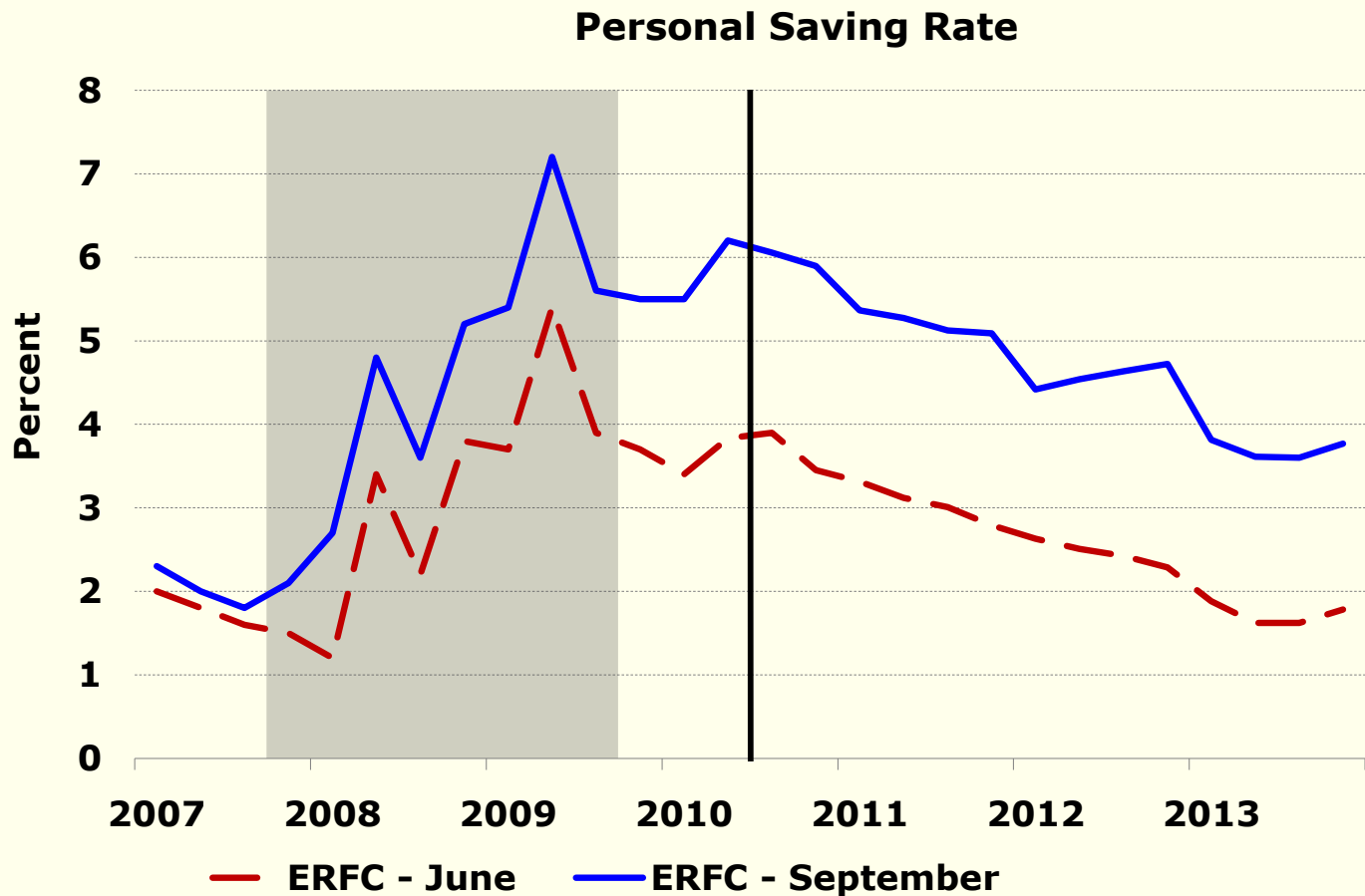
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# The historical savings rate was revised up sharply, affecting our forecast

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.



Source: ERFC September 2010 forecast; actual through 2010 Q2

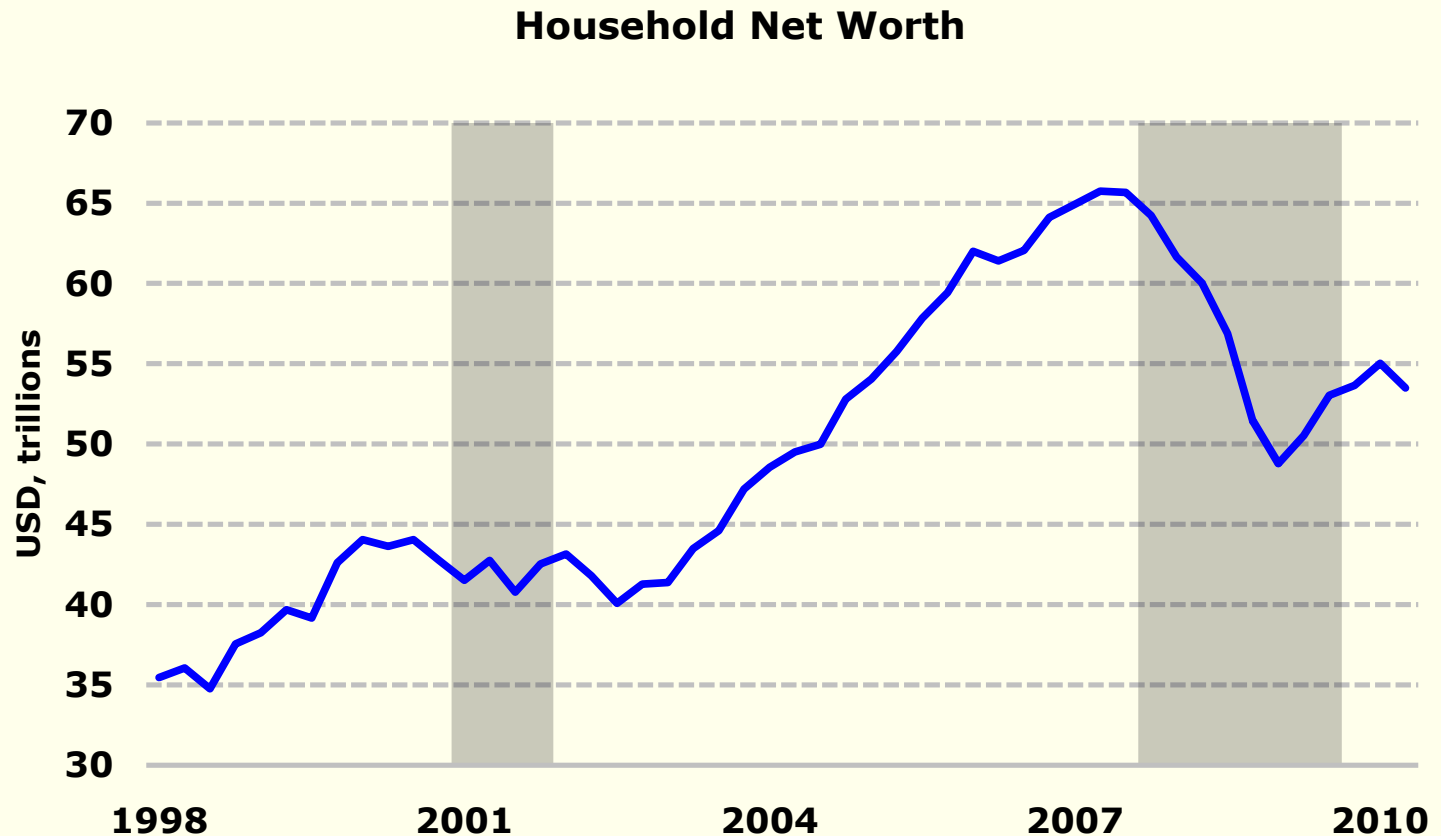
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# Household net worth is on the mend, but still well below its peak

\$18 trillion of wealth was lost in this recession

\$6 trillion has been recovered so far



Source: Federal Reserve; data through 2010 Q2

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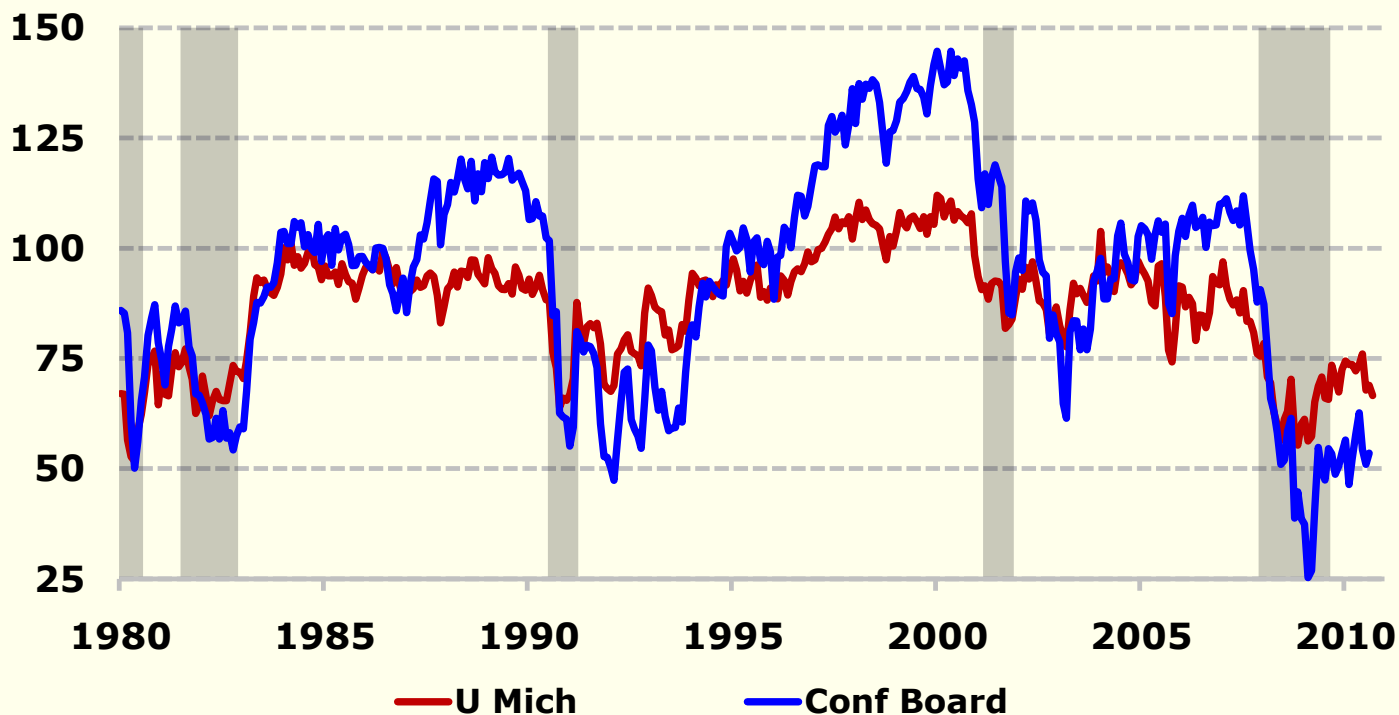


# Consumer confidence remains uncertain

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**



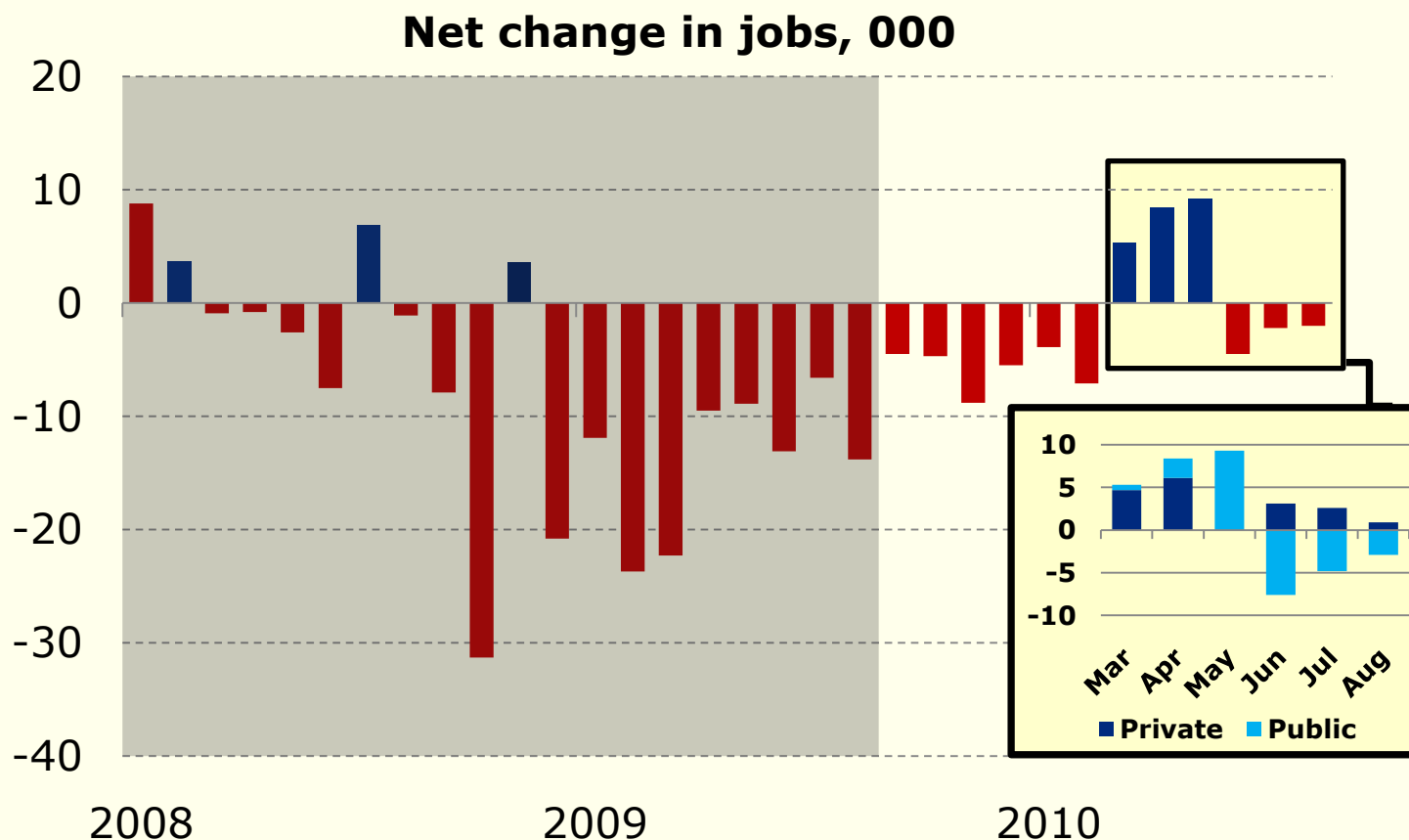
Source: University of Michigan; Conference Board, data through September 2010

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# Private sector job growth in WA mirrors the national pattern – weak and hesitant



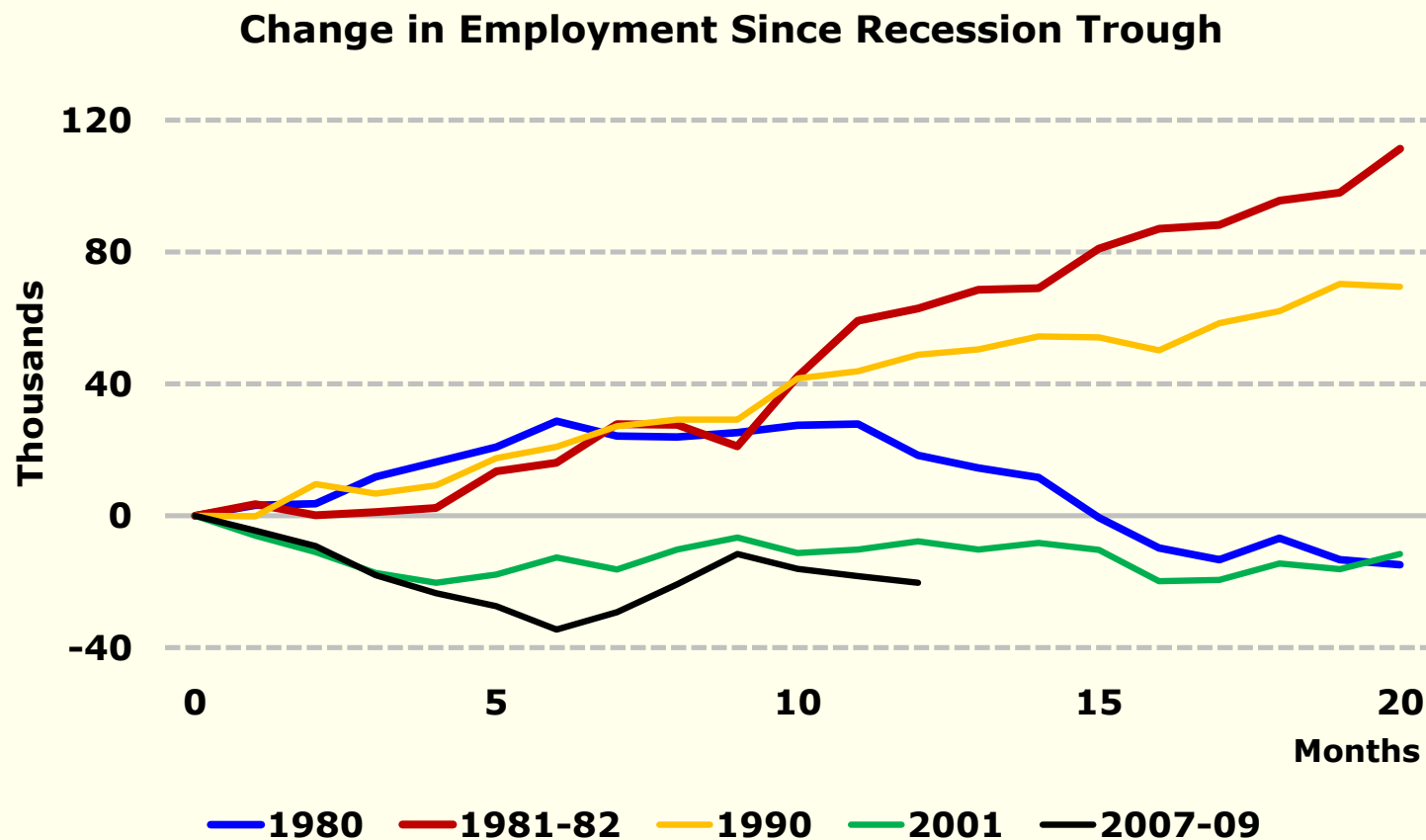
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Source: WA ESD, ERFC; data through August 2010

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# Employment growth since the trough has been slowest for this recession...



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Source: BLS, WA ESD; data through August 2010

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# ... and the hole we are in is also the deepest

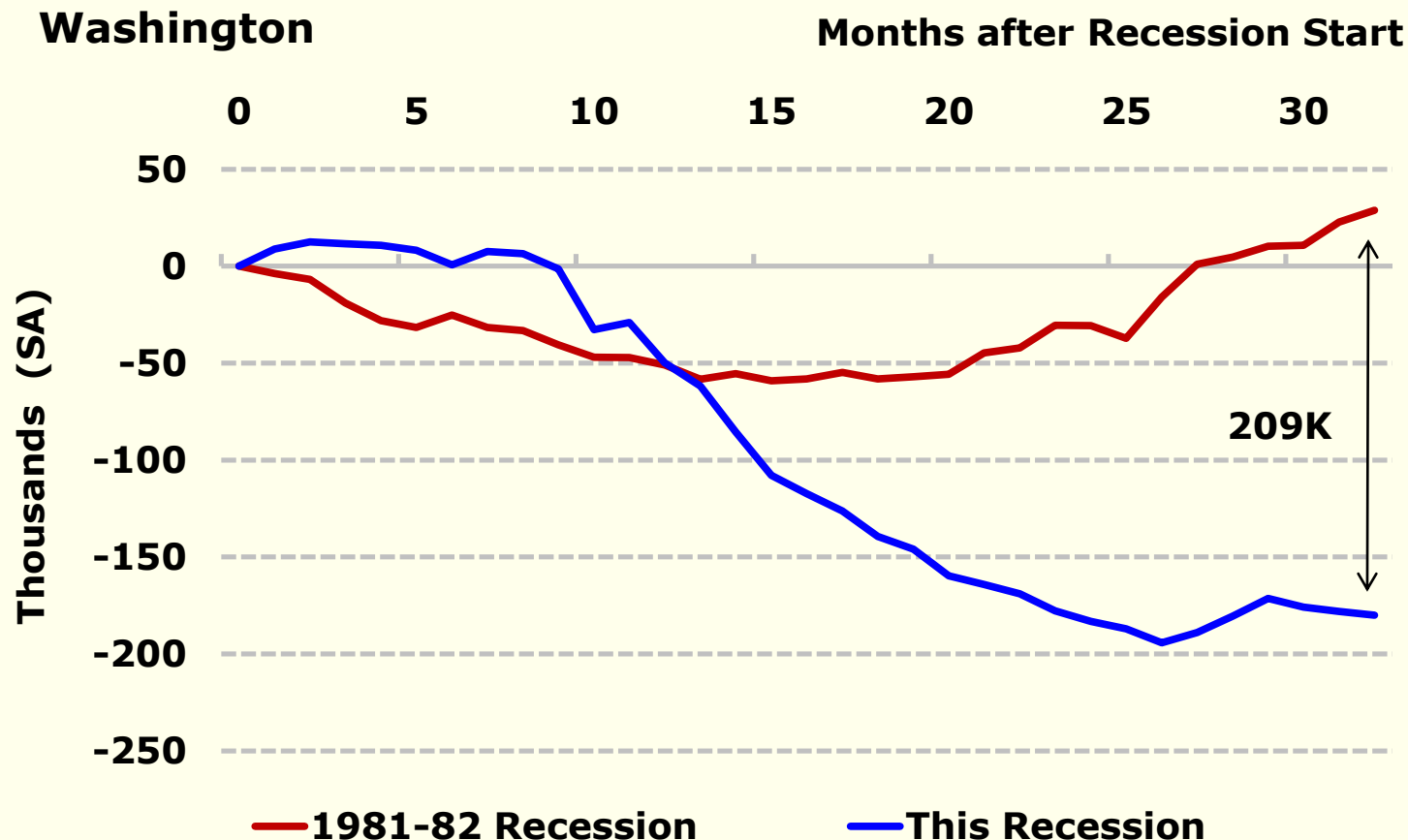
Peak to  
trough job  
losses

**1981-82:**

2.9% of  
labor force

**This time:**

5.5% of  
labor force



Source: WA ESD, ERFC; data through August 2010

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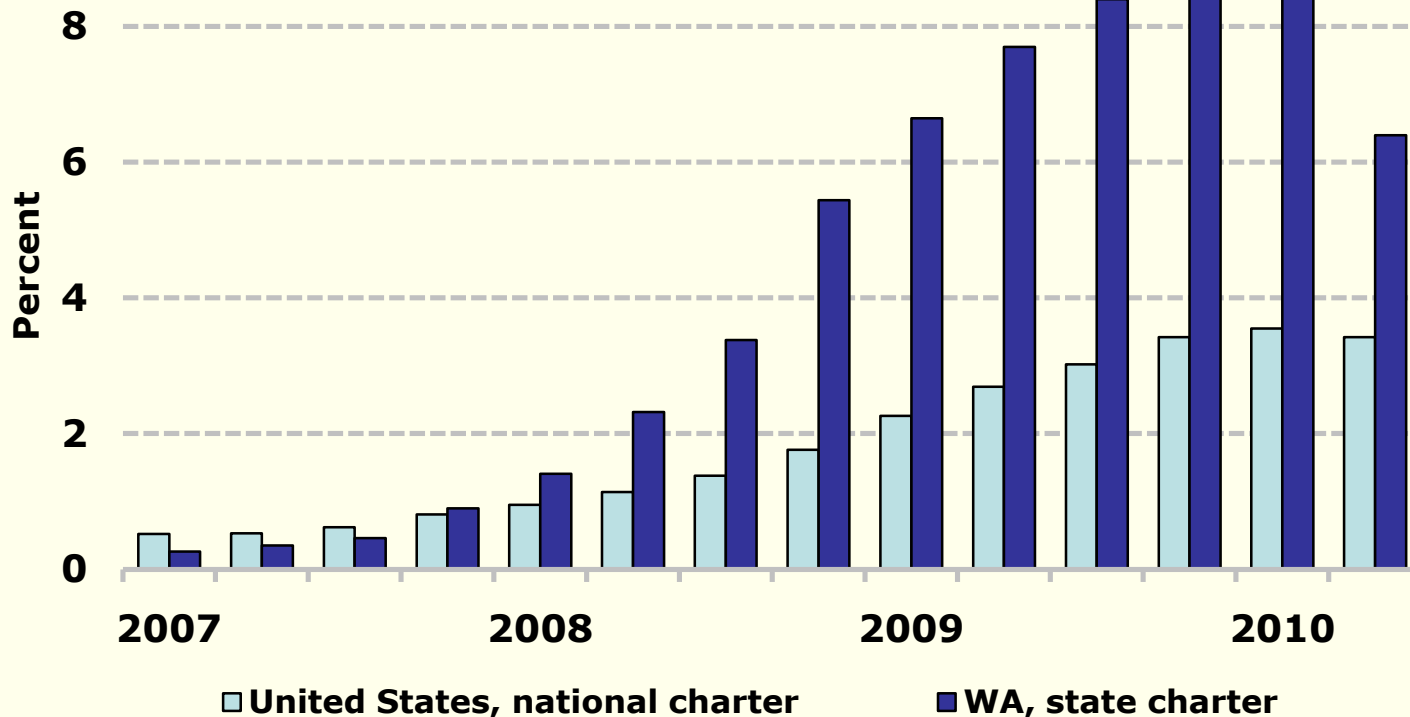
# Asset quality of WA regional banks is improving

The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate

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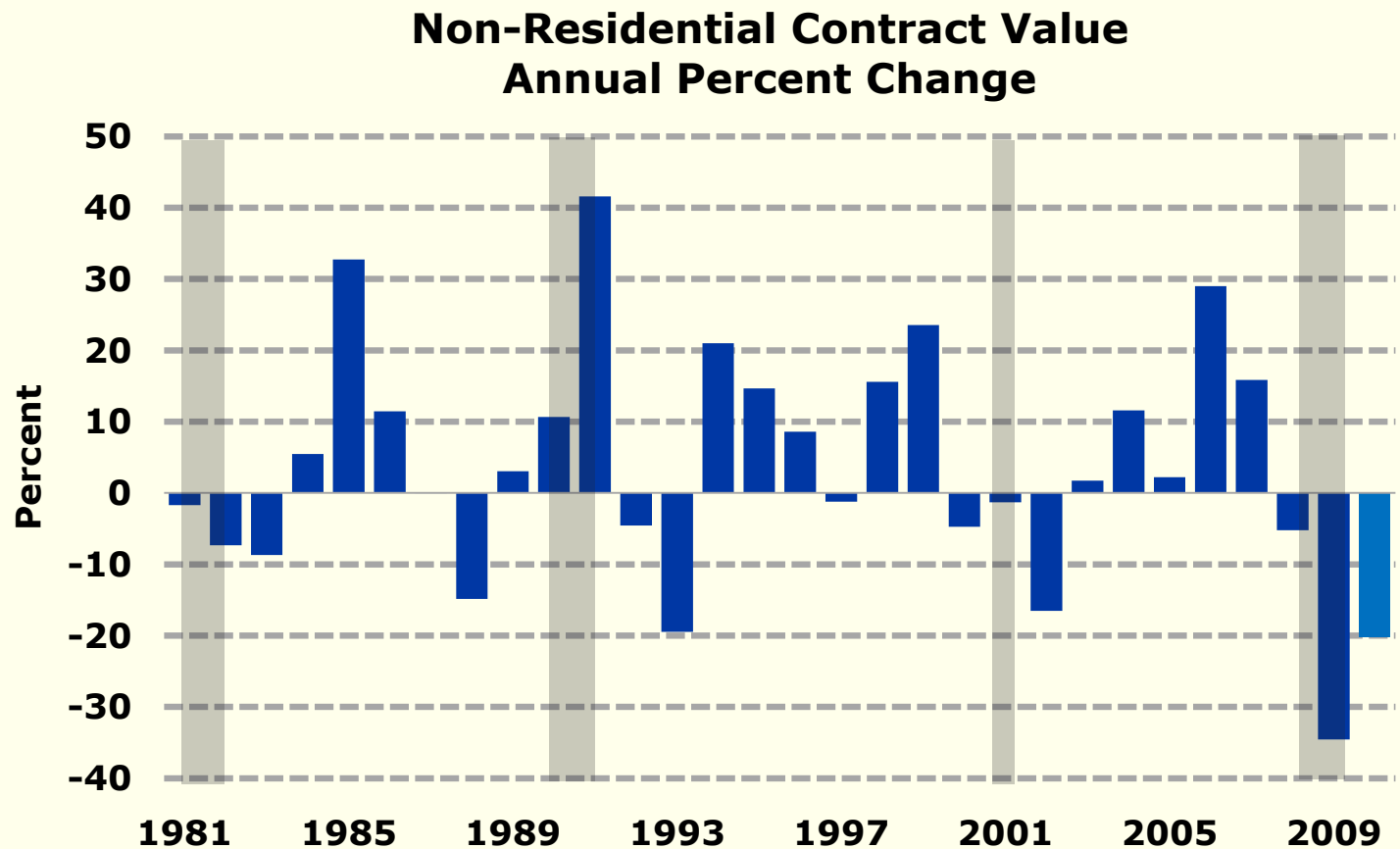
**Ratio of Non-Performing to Total Assets**



Source: FDIC, data through 2010 Q2



# This is WA's worst downturn in non-residential construction in 30 years

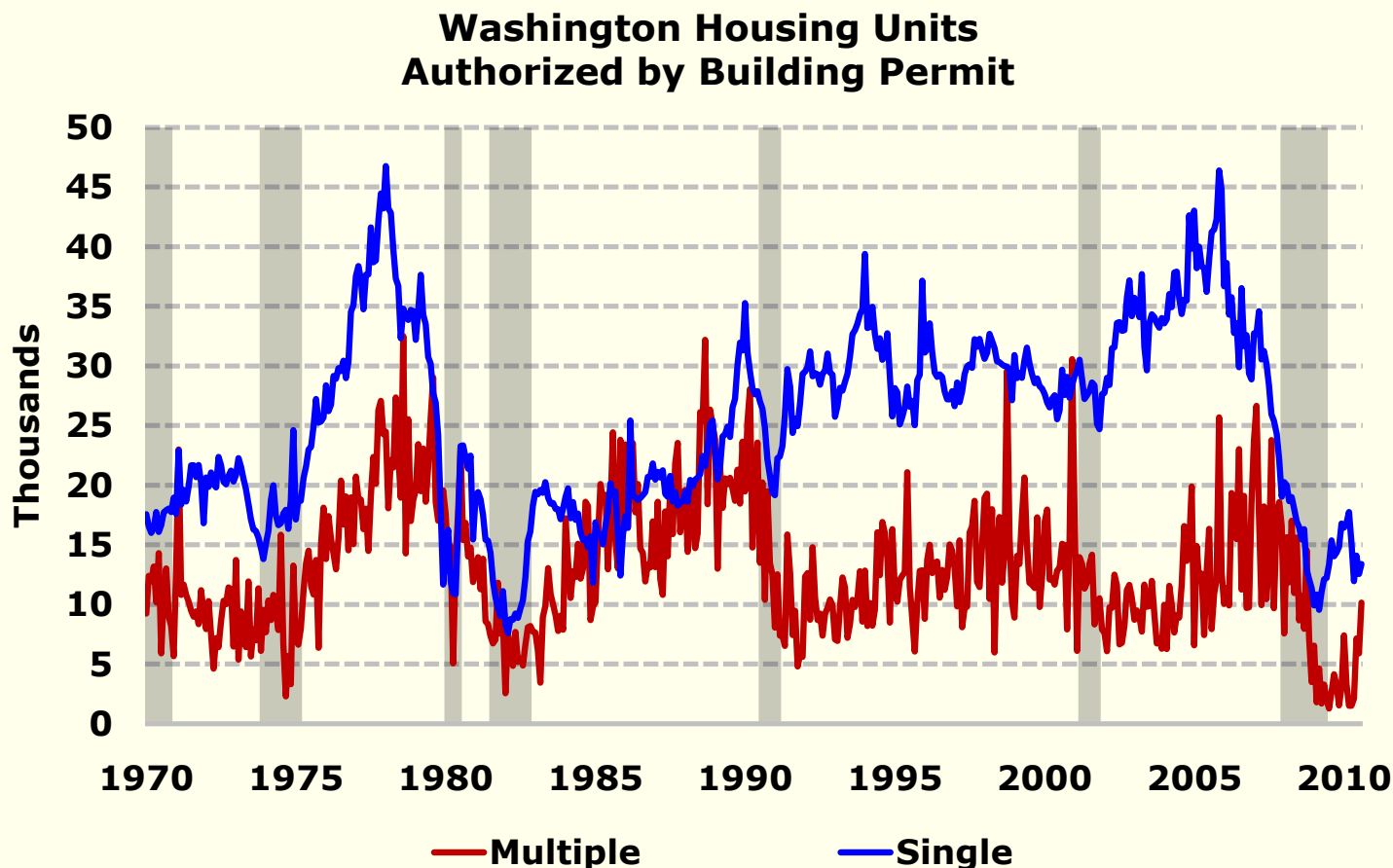


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Source: McGraw-Hill Construction, data through August, 2010



# WA SF building permits have dropped sharply since the tax credits expired



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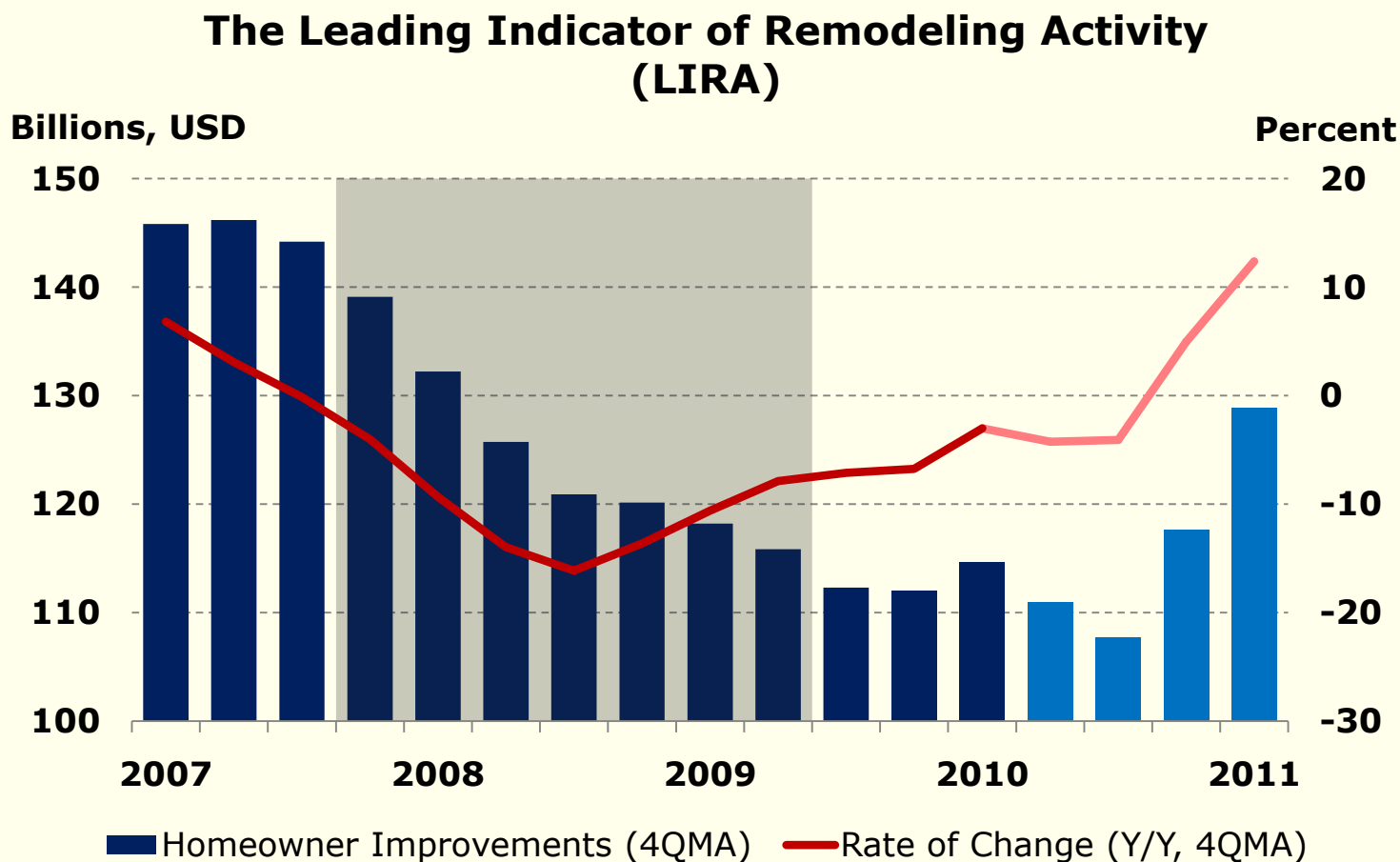
Source: U.S. Census Bureau; data through August 2010

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# Leading indicator suggests remodeling improvement in late 2010



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Source: Joint Center for Housing Studies of Harvard University, actual data through 2010 Q1

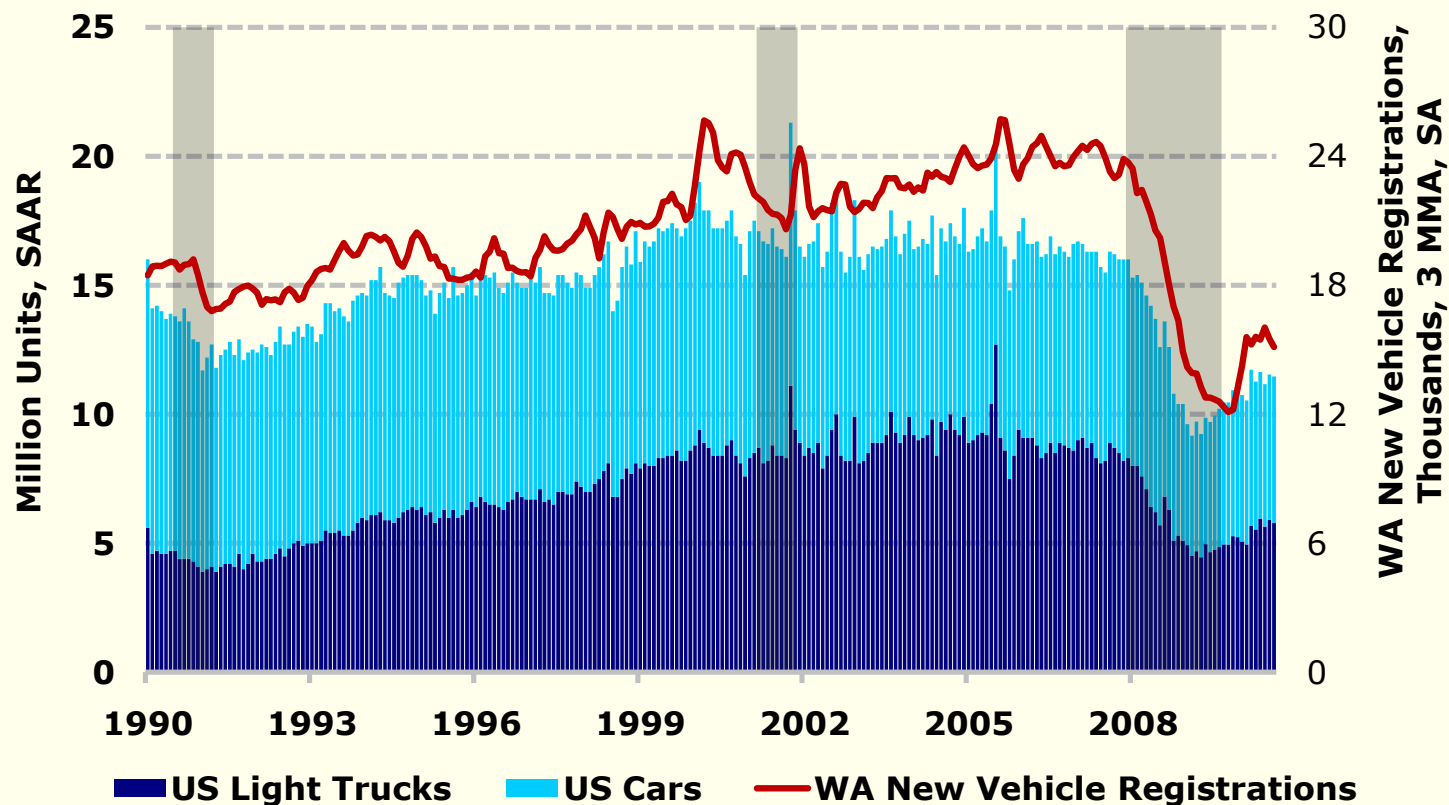
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# Automotive sales are treading water, after recovering from its trough

**Cash for  
Clunkers  
effect  
removed**



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Source: Autodata Corporation, WA DOL; data through August 2010

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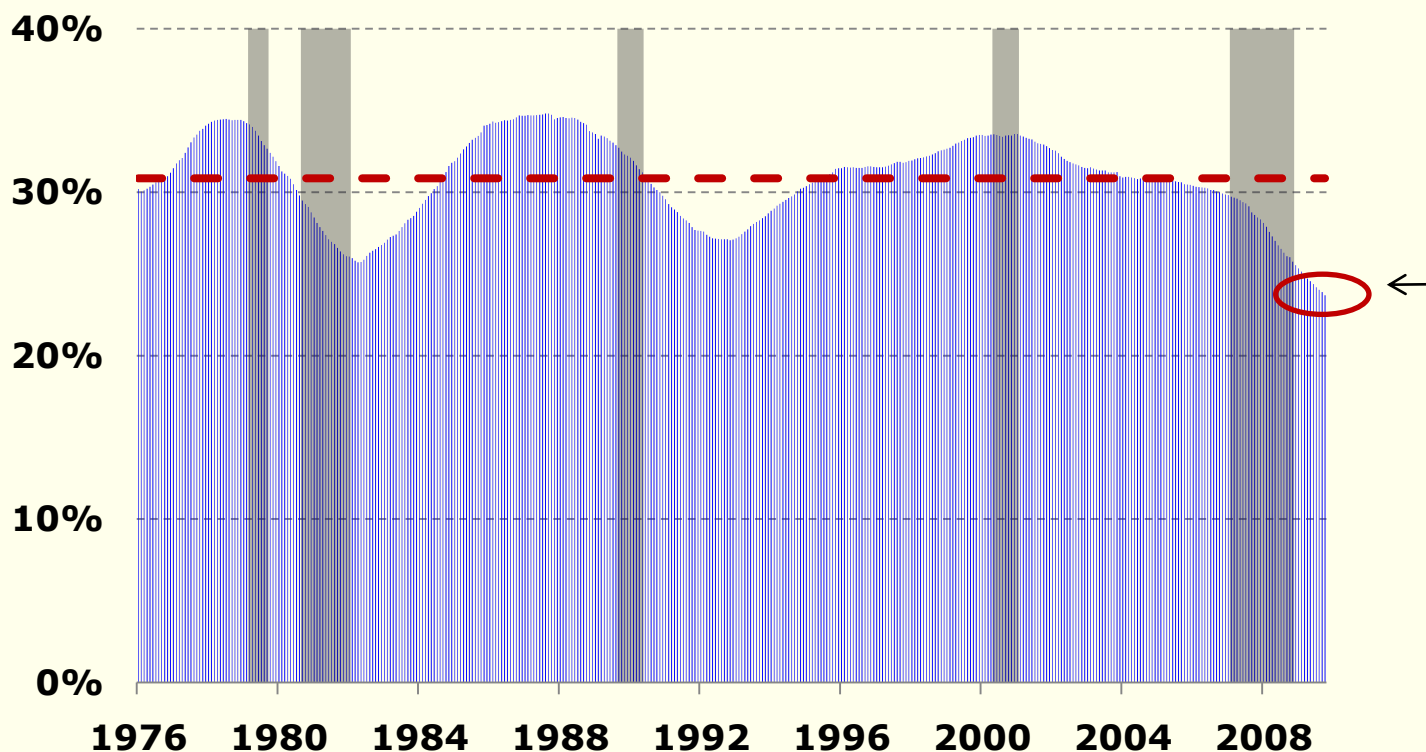




# Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

**U.S. LMV Sales: Ratio of 36/120 Months**



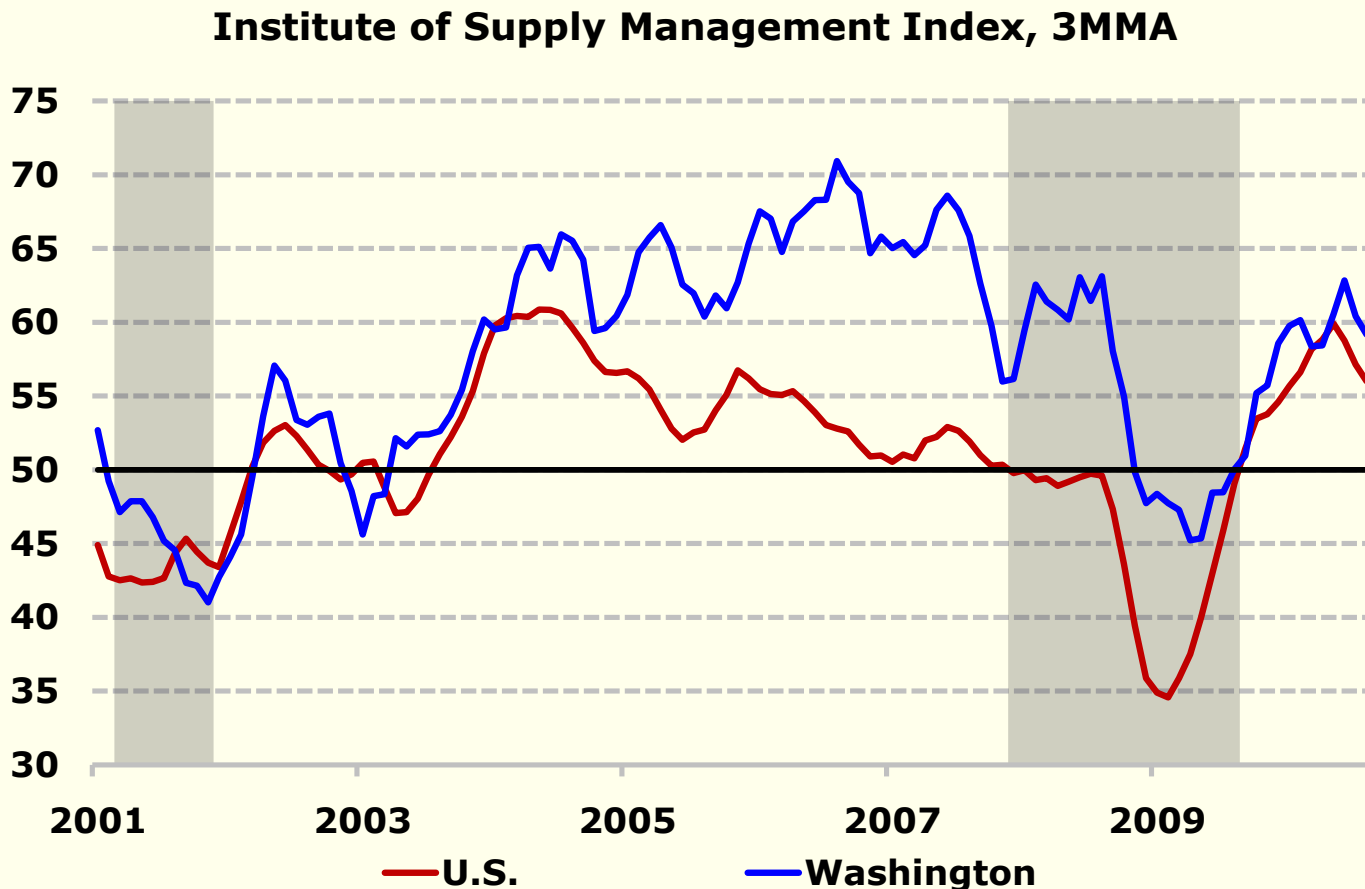
Source: Autodata Corporation, ERFC; data through August 2010

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# Washington manufacturing has been outperforming the nation

An index greater than 50, implies growth

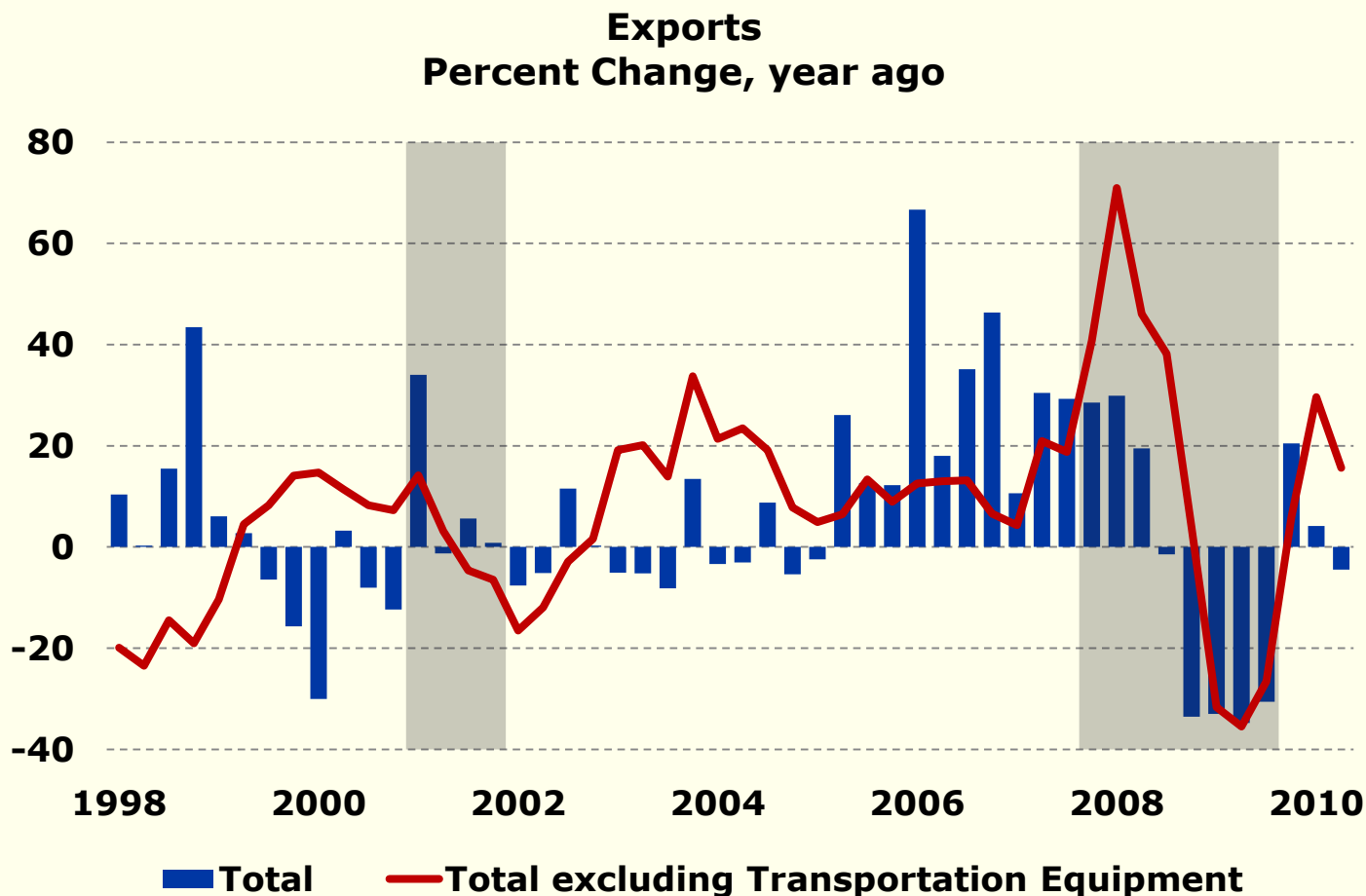


Source: Institute of Supply Management; data through August 2010



# WA export growth is slowing, but will help state outperform in the recovery

Exports excluding transport equipment were up 15.6% y-o-y in Q2



Source: Wiser Trade Data; through 2010 Q2

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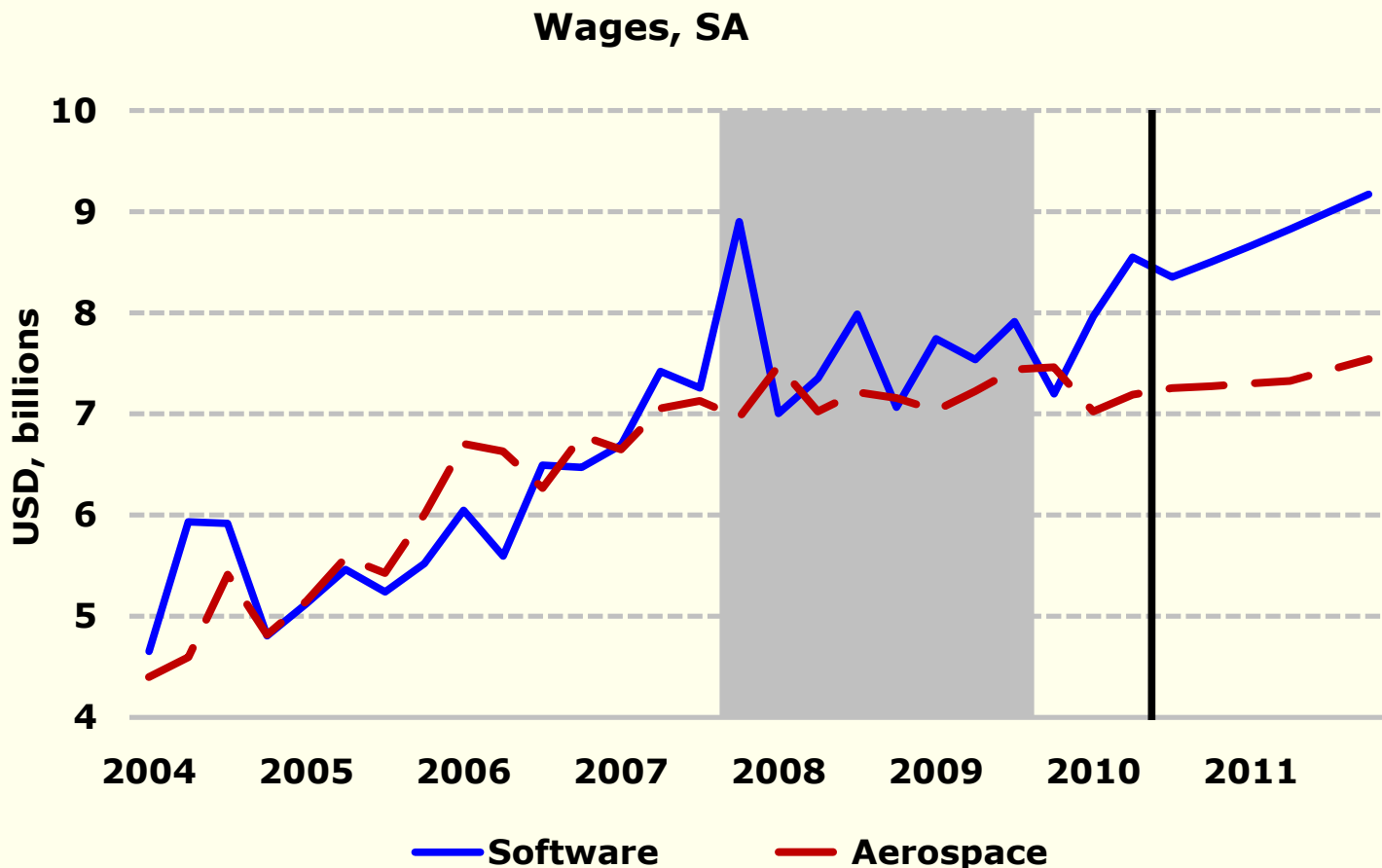


# WA aerospace and software sectors are expected to add \$4 billion in wages through 2013

Through 2013, WA aerospace and software industries will contribute 14% of wage growth, although they represent just 5% of the workforce

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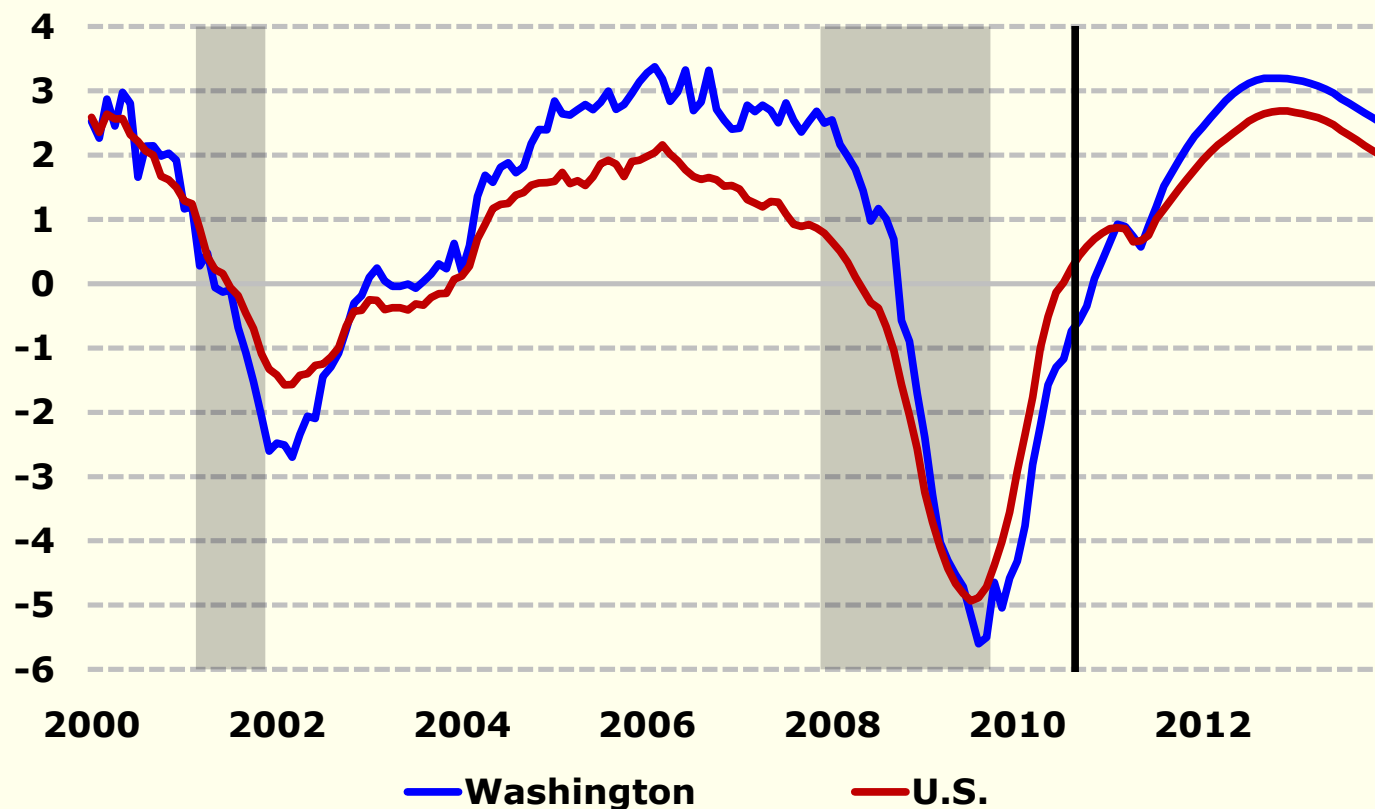


Source: ESD, ERFC September 2010 forecast; actual data through 2010Q2



# WA employment lagged the nation in the downturn and will initially recover at about the same rate as the nation

## Percent change, year ago



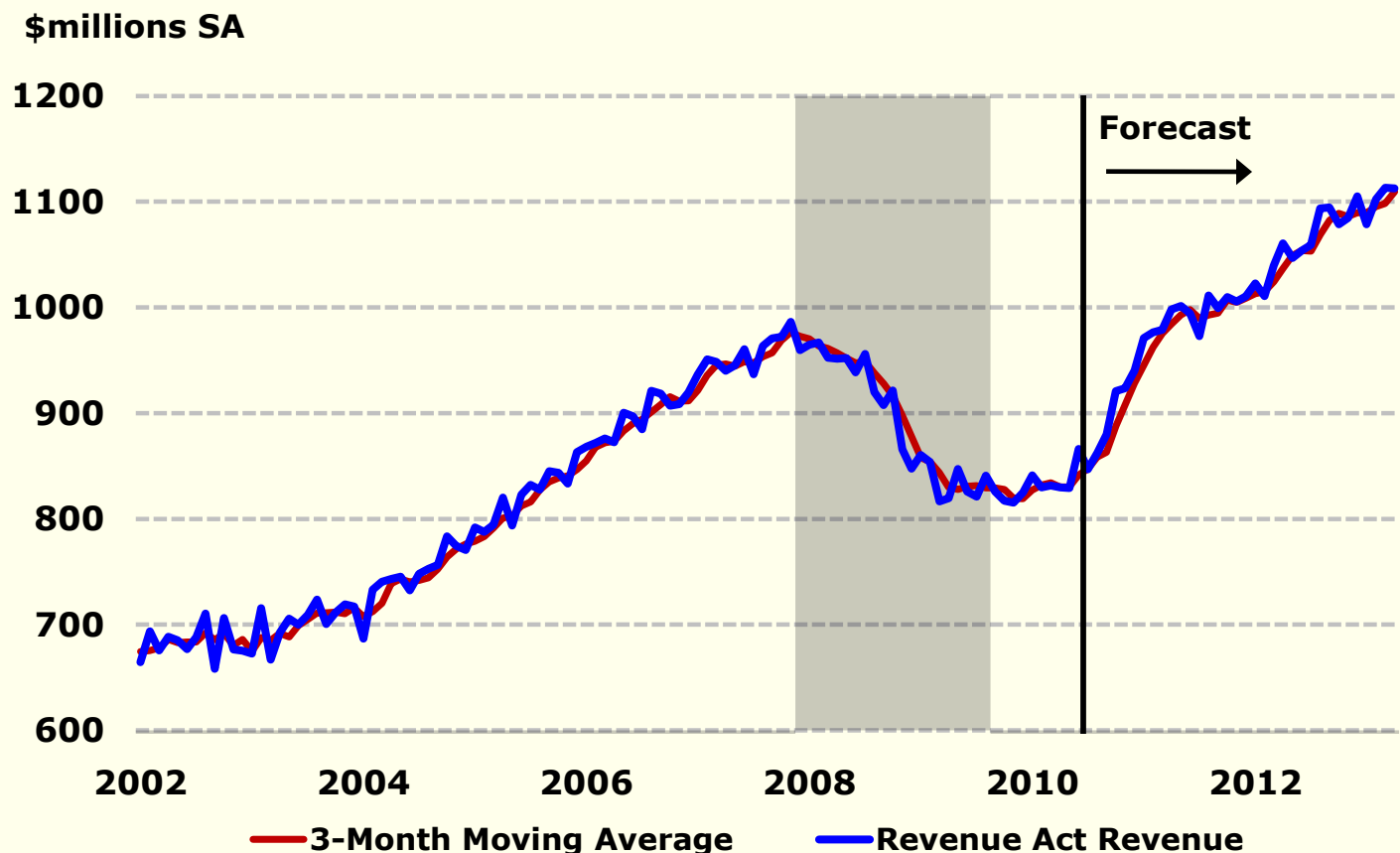
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Source: ERFC September 2010 forecast; actual through August 2010



# Revenue Act collections are now trending upward, and likely to continue

Adjusted receipts were up 3.2% year-over-year in the August 11 - September 10 collection period – for July activity.



\* Adjusted for large one-time transactions, current definition of Revenue Act

Source: DOR and ERFC; monthly data through July 2010 activity; September 2010 forecast

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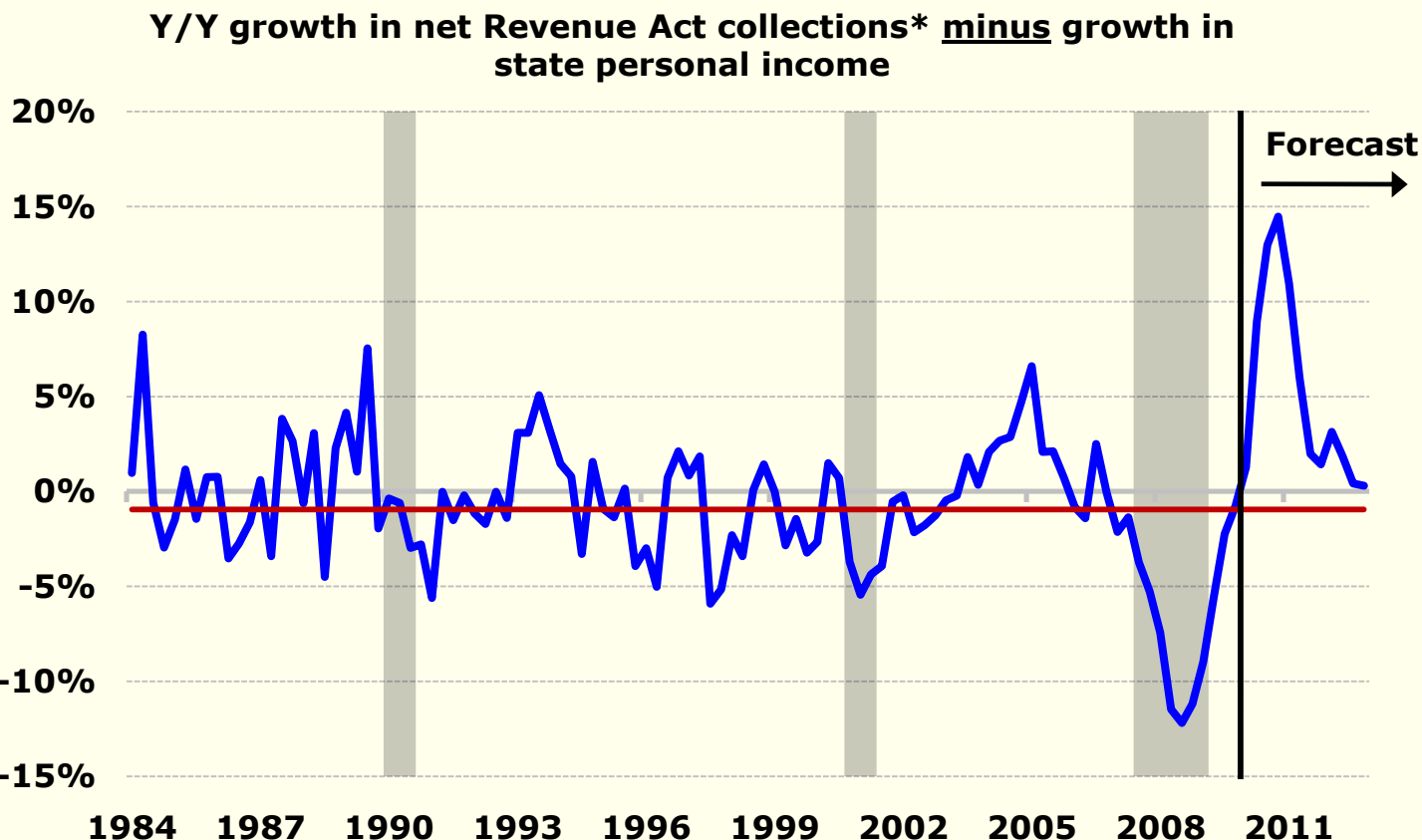
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# Revenue growth relative to income will improve sharply due to 2010 legislation

The growth rate for FY 2011 is accelerated by legislative additions to B&O and retail sales taxes



\*Current definition of Revenue Act, includes effects of 2010 legislation

Source: DOR and ERFC; data through 2010Q2 estimated, September 2010 forecast

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# Forecast changes: General Fund State, 2009-2011 Biennium

**June  
Forecast:**  
\$29,282  
million

USD millions	September '10 Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$189)	(\$5)	(\$552)	\$27,055	(\$747)
All other agencies	(\$2)	\$0	(\$21)	\$1,457	(\$23)
<b>Total GF-S</b>	<b>(\$192)</b>	<b>(\$5)</b>	<b>(\$573)</b>	<b>\$28,512</b>	<b>(\$770)</b>

\* Detail may not add to total due to rounding

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# Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

USD millions	September '10 Forecast				
	<u>June 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32,433	(\$10)	(\$611)	\$31,812	(\$621)
All other agencies	\$1,650	\$0	(\$48)	\$1,602	(\$48)
<b>Total GF-S</b>	<b>\$34,083</b>	<b>(\$10)</b>	<b>(\$659)</b>	<b>\$33,414</b>	<b>(\$669)</b>

\* Detail may not add to total due to rounding

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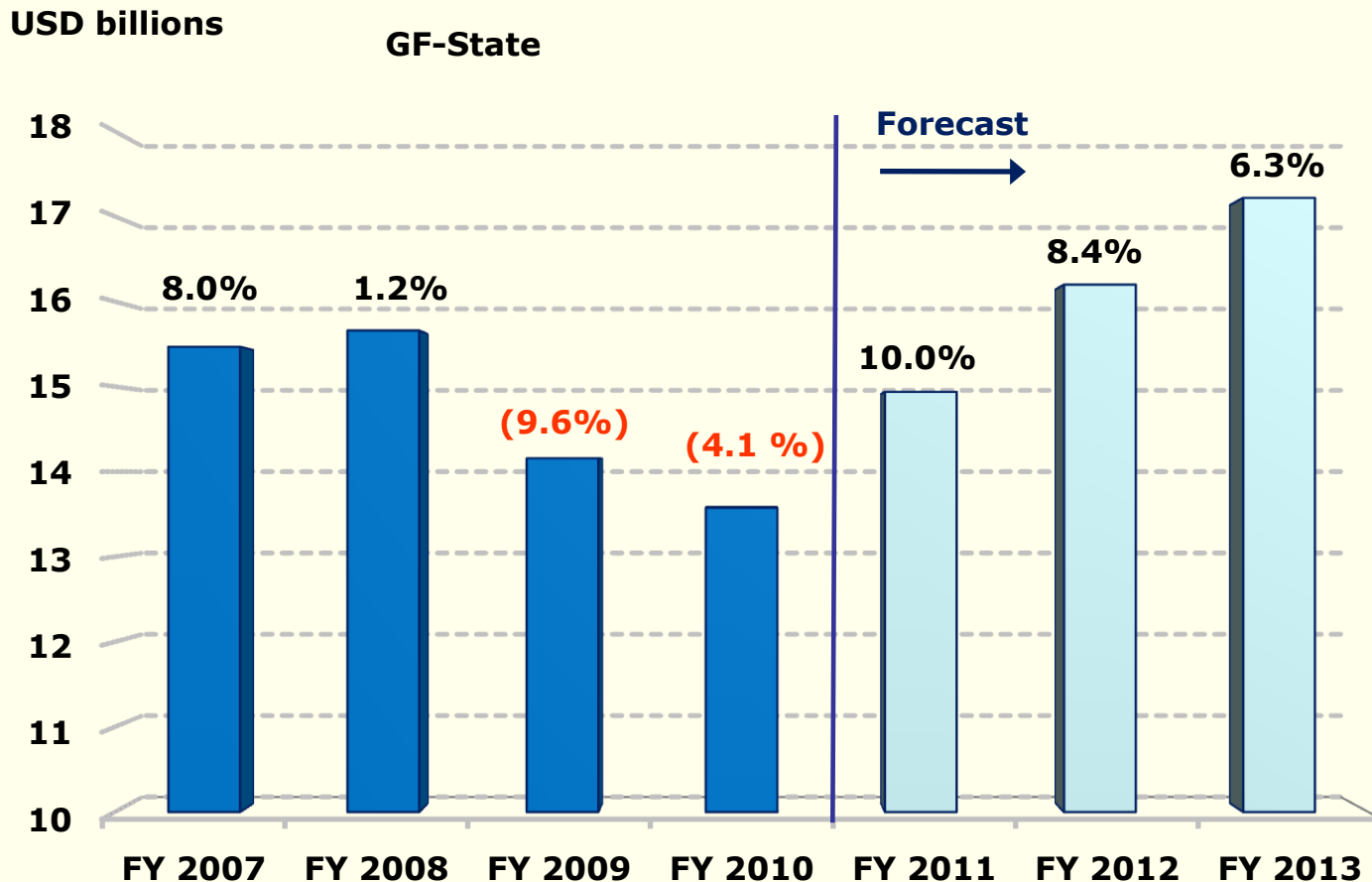
# General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, September 2010; includes impact of legislative changes



# Conclusion

- The economic outlook has significantly weakened in the last three or four months
- Historical data revisions indicate weaker activity than previously estimated
- We expect the recovery to continue, but at an agonizingly slow pace
- The forecast for the 2009-11 Biennium is \$770 million lower, due to a weaker economic outlook
- The forecast for the 2011-13 Biennium is \$669 lower for the same reason
- The level of uncertainty inherent in our forecast is higher than before
- The downside risk to the forecast is also higher



# Questions



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**Economic & Revenue Forecast Council**  
**1025 E. Union Avenue, Suite 544**  
**Olympia WA 98504-0912**

[www.erfc.wa.gov](http://www.erfc.wa.gov)  
**360-570-6100**